Your *Trust* Matters

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MidWestOne™ TRUST SERVICES

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Leaving Funds to Minors

My hope is you are all enjoying your summer and have found time to spend with family and friends. Although this is not your typical summer of being able to watch your children, grandchildren, nieces and nephews play sports or take them to amusement parks, I hope you have found other fun memory-making activities to share together. When I was a young child, my grandparents would take seven grandchildren to their weekend home. We would play games, take nature walks, eat hot dogs and hamburgers, and enjoy ice cream, but my favorite part was making tie-dyed t-shirts. It was so great to see how different each one was. Some of us were creative in making our designs, while others were the dip-it-in-one-color-and-be-done type. Those are the things I started thinking about during the pandemic. What memories do I want to leave with my nieces and nephews? How can I provide something they can use later in life? Ranging in ages from seven days to seventeen years old, I know they are not able to manage money on their own. So, what are my options?

Whether you are a parent, grandparent, aunt, uncle, or other relative, leaving assets to a young child always comes with good intentions, though can lead to unintended results if not planned correctly. There are many options, though the two below are the most widely used.

Creating a child's trust in your will

This option gives you control over when the child will receive the assets and who will manage the assets until the child reaches the stated age. It also can prevent a child from being reckless with the assets. Having specific terms in the trust can provide the child with financial guidance into adulthood. Trusts usually contain a larger bequeathed dollar amount, a large income-producing asset, or some type of property which when sold could create a larger source of cash. A trust does require a tax return to be filed annually, creating an expense to the trust upwards of $250 - $750, depending on the complexity of the return. A trust is also taxed at a much higher rate; the trust may owe taxes at the end of the year or need to pay estimates to keep ahead. These two variables can affect the value of the trust, ultimately decreasing the value intended to be inherited. It is important that the assets are managed or invested properly to protect the principal as much as possible.

Open a Custodial Account

UTMA (Uniform Transfers to Minors Act) or UGMA (Uniform Gifts to Minors Act) accounts were created to allow minors to receive gifts – money, patents, real estate, fine art, royalties, securities, etc. – while shielding the minor from tax consequences on the gift. These accounts are opened with a financial institution and can be established with as little as $1,000. For example, an UTMA account may be established for a two-year-old child and funded with only $2,000. Properly invested, that account has the potential to increase significantly over the next 16 to 19 years. Additionally, contributions can be made to these accounts throughout its term. UTMA/UGMA accounts do not require a guardian or trustee, but rather the person establishing the account is the custodian managing the asset until the minor becomes of legal age, typically when the minor reaches age 18 or 21. A successor custodian may also be named who will manage the account if original custodian were to pass away before the minor child reaches legal age. Custodians are acting as fiduciaries and have the fiduciary responsibility to act ethically and legally in the best interest of the beneficiary.

Together, I am confident we can help make the right decisions for you and your wishes. Contact our trust department and set up an appointment today!